

PRESENTATION ON FMCMM & AUDIT ACTION PLAN SYSTEM

MFMA IMPLEMENTATION

PRESENTED BY:

**KENEUE
MOFOKA**

Title: SENIOR MFMA
ADVISOR
OFFICE OF THE
ACCOUNTANT GENERAL

Date: 18 November 2021





national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA





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NATIONAL TREASURY
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WEB-ENABLED SYSTEM

1. FMCMM 123
2. Financial Ratios
3. FMCMM 456
4. Audit Action Plan



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KEY FMCM 123 & FINANCIAL RATIOS

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FINANCIAL MANAGEMENT CAPABILITY MATURITY MODEL



As per Section 62 of the MFMA, the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure, amongst others-

- *That the resources of the municipality are used effectively, efficiently and economically; and*
- *That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

To support municipalities in their financial management National Treasury developed the Financial Management Capability Maturity Model (FMCM) diagnostic tool and associated tools targeting various components of financial management in municipalities.

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OBJECTIVE OF THE FMCMM



To guide municipalities in continuous improvement and innovation of sustainable financial management towards effective, efficient and economical service delivery excellence.

BUILD → MEASURE

The tools were designed to assess and improve the level of financial management maturity and capabilities within municipalities. They aim to:

- Provide information that would **assist management to implement changes** to address shortcomings;
- Improve and develop **practices** for good financial management;
- Identify **risks** prevalent in the system and introduce mitigation measures to address them;
- **Help** to sustain procedures and processes for effective and efficient financial management; and
- Serve as a **proactive** mechanism that would support improvements in financial management and contribute towards better audit outcomes.

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FMCMM 123

BUILDING A CAPABLE STATE BY LAYING A FIRM FOUNDATION

- **Level 1 - Start up**
(systems, processes and procedures not defined or followed)
- **Level 2 – Development**
(systems, processes and procedures are basic and are being developed)
- **Level 3 – Controlling**
(Systems , processes and procedures are functional and able to support the organisation)



YOU ARE ONLY AS **STRONG**
AS YOUR
FOUNDATION

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FMCMM 123

THE SUCCESS OF THE FMCMM ACTION PLAN IS MEASURED BY DECREASES IN THE NUMBER OF AUDIT FINDINGS IN THE FOLLOWING AREAS:

<ul style="list-style-type: none"> ○ information and communications technology; ○ risk management; ○ asset management; 	<ul style="list-style-type: none"> ○ revenue management; ○ supply chain management; ○ capacity building.
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PAST CHALLENGES:

- ✗ **Fragmented approach** to completion and implementation.
- ✗ Little or no **monitoring** of implementation.
- ✗ Difficulty in monitoring **various segments**.
- ✗ **Not knowing the right**.




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THE WEB-ENABLED SYSTEM: STEPPING UP TO IMPROVEMENT

- **Easily accessible:** internet connection using standard browser required. Users can work from anywhere and no physical software to download.
- **Simultaneous multiple user access.**
- **Dropdown menu** choices.
- Provision of automated **detailed internal control solutions** for 'Partial' or 'NO' responses.
- **Immediate responses** generated to input.
- **Comprehensive set of references:** each question indicates: Associated Control, Associated Risk and Applicable Legislation.
- Provides **real time alerts at different stages** of completing the assessment: notifications are sent to relevant users via e-mail.
- **Promotes accountability:** each module is assigned to the responsible manager.
- **Internal Audit review** capability and **PT and NT review process is mandatory.**



- **Five help options:** Detailed User manual with screenshots, FAQ on NT website, online system Help function, Helpdesk e-mail, Logging a ticket with National Treasury.
- Identification of **capacity needs** – Learning Framework.
- Underpins the development of **Strategic Support Plans (SSP).**
- **Stores information year on year.**

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SURGICAL INTERVENTIONS

Development of strategies and corrective plans: Strategic Support Plans (SSP), and ensures that support is directed to areas most in need

- ❖ Per geographical area: nationally, provincially, at district level, at municipality level.
- ❖ Per area of financial management and governance.
- ❖ At National / Provincial levels:
 - development/revision of new frameworks and guidelines.
 - revisions to templates.
 - focused training programmes and capacitation.
 - advisory services.
- ❖ At individual municipal level:
 - development/revisions to frameworks.
 - development/revisions to policies and SOPs
 - Identifying internal control deficiencies/risks and developing mitigation measures to address risks
 - focused training and capacitation.

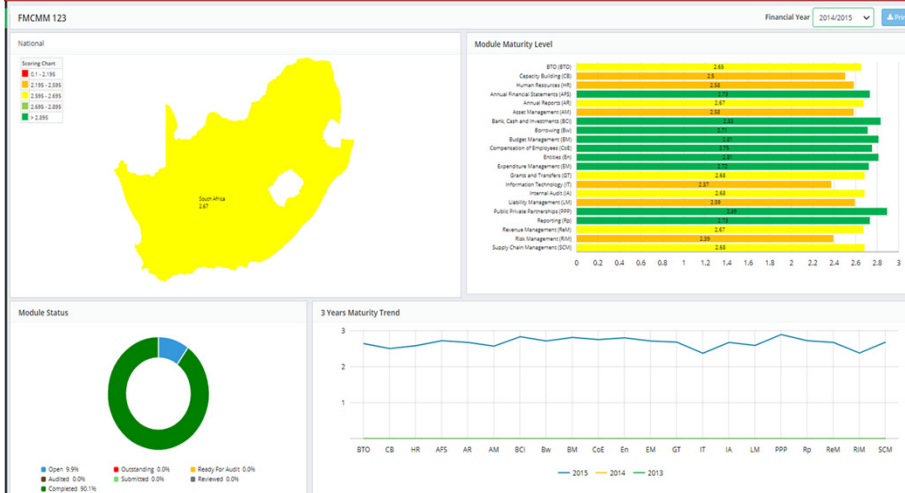


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FMCM 123 DASHBOARDS AND REPORTS

Dashboards: Dashboard for FMCM 1,2,3 assessments and FMCM Action plans

NT Dashboard – Provincial level and drill downs into district and individual municipality and municipal entity level




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FINANCIAL RATIOS

FINANCIAL RATIOS highlight the **FINANCIAL IMPACT** of changes effected to systems, processes and procedures.



The FMCMM shows the POSITION of a municipality at a certain point in time.

The National Uniform Financial Ratios & Norms show the COMPARATIVE PERFORMANCE over time or between institutions.

MFMA CIRC 71 outlines the 32 ratios and norms, covering:

- Financial Position (Asset Management, Debtors Management, Liquidity, Liability Management, Sustainability)
- Financial Performance (Efficiency, Distribution losses, Revenue Management, Expenditure Management, Grant Dependency)
- Budget Implementation of municipalities.

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NATIONAL TREASURY 12

AUTOMATED FINANCIAL RATIOS

CAPTURE RATIOS AT DIFFERENT STAGES OF AFS PREPARATION AND PROJECTED TRENDS USING:

- PRE-AUDITED,
- AUDITED,
- RESTATED AFS AND
- PROJECTIONS

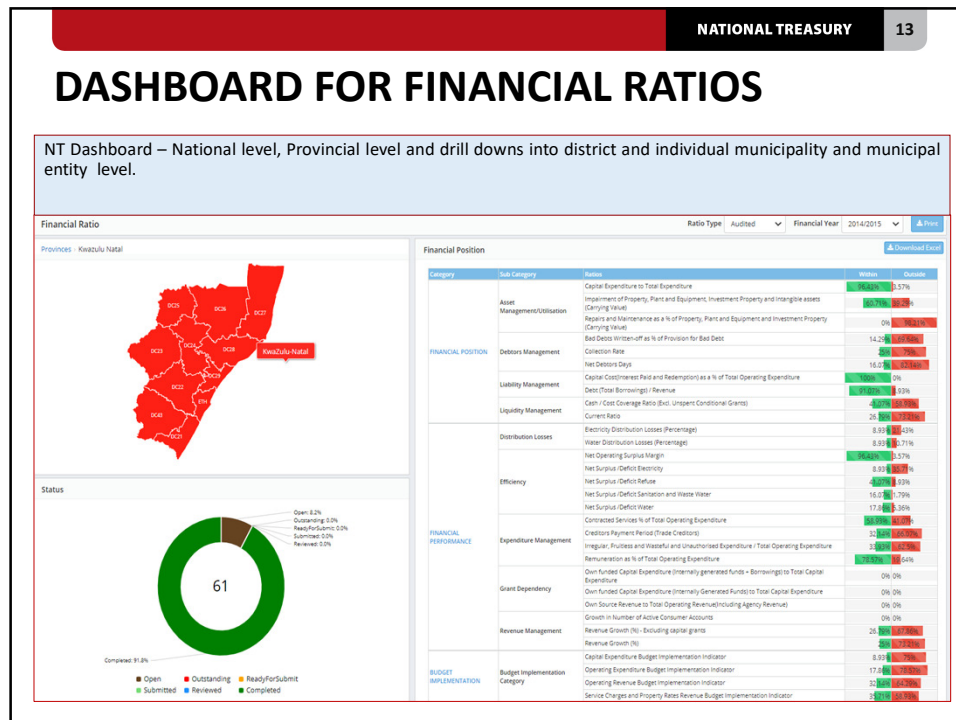
BUILT IN REVIEW PROCESS



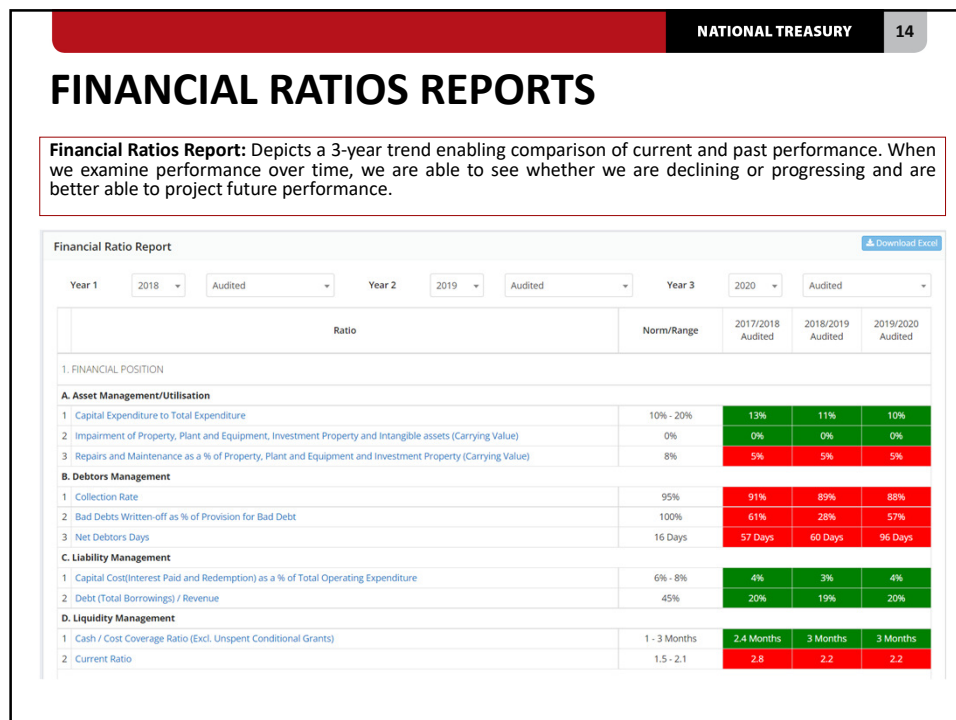
PERFORMS
TREND ANALYSIS
&
IDENTIFIES EXCEPTIONS FOR CORRECTIVE MEASURES

DASHBOARDS PROVIDE A HOLISTIC PICTURE
AS INDICATORS ARE PRESENTED IN A COMBINED MANNER.

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FMCMM 123 ACTION PLANS

Question

Risk

Associated controls

Responsible official

Action to be taken

Date:
 - Expected
 - Start
 - Resolved

Progress on action taken to date

Status
 - Not yet started
 - In progress
 - Completed

- FMCMM Action Plans reflect detailed actions to be taken to address identified shortcomings in FMCMM Assessment are developed per module.
- The developed FMCMM Action Plan should be tabled in Council.
- Monitoring of Action Plans is vital in ensuring that shortcomings are addressed.
- Strengthen the capacity and capability of an institution over time.

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FMCMM 123, FINANCIAL RATIOS AND ACTION PLAN DASHBOARD

Municipal Portal at individual municipality level

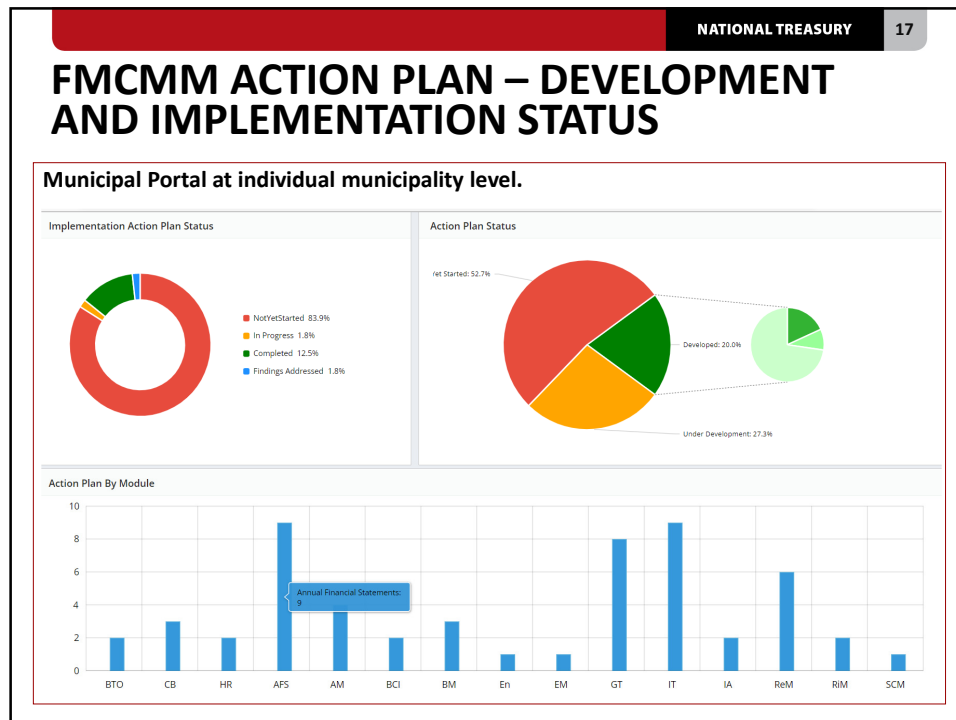
FMCMM 123 - Financial Ratio Financial Year: 2018/2019 [Print](#)

Module Maturity Level

Financial Position Ratio Type: Audited

Category	Sub Category	Ratios	Result
FINANCIAL POSITION	Asset Management/Utilisation	Capital Expenditure to Total Expenditure	11%
		Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%
		Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	5%
	Debtors Management	Bad Debts Written-off as % of Provision for Bad Debt	28%
		Collection Rate	89%
		Net Debtors Days	60 Days
	Liability Management	Capital Cost/Interest Paid and Redemption as a % of Total Operating Expenditure	3%
		Debt (Total Borrowings) / Revenue	19%
	Liquidity Management	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	3 Months
		Current Ratio	2.2
Distribution Losses	Electricity Distribution Losses (Percentage)	12%	
	Water Distribution Losses (Percentage)	27%	

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FMCMM 123: MATURITY LEVEL TREND REPORT

Individual municipality view (Assessments performed in the past 5 years)

FMCMM Report [Download Excel](#)

Modules	Maturity Level Trend					Movement
	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	
INSTITUTIONAL						
1 BTO		2.90	2.90			→
2 Capacity Building		2.90	2.93			↑
3 Human Resources		2.97	2.90			↓
TECHNICAL						
4 Annual Financial Statements		2.73	2.95			↑
5 Annual Reports		3.00	2.85			↓
6 Asset Management		2.94	2.82			↓
7 Bank, Cash and Investments		2.95	3.00			↑
8 Borrowing		3.00	3.00			→
9 Budget Management		2.91	2.98			↑
10 Compensation of Employees		3.00	3.00			→
11 Entities		3.00	3.00			→
12 Expenditure Management		2.98	3.00			↑
13 Grants and Transfers		2.71	2.96			↑
14 Information Technology		2.91	2.98			↑
15 Internal Audit		2.97	3.00			↑
16 Liability Management		3.00	2.96			↓
17 Public Private Partnerships						
18 Reporting		3.00	2.98			↓
19 Revenue Management		2.94	3.00			↑
20 Risk Management		2.97	3.00			↑
21 Supply Chain Management		2.99	3.00			↑
TOTAL		2.93	2.96			↑

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FMCMM 456

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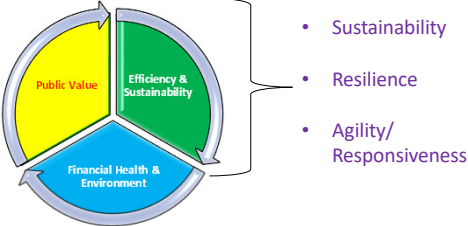
RESEARCH, BENEFITS & MATURITY LEVELS

1. Extensive international and local research undertaken
2. Concepts have been researched and incorporated to complete the model;
 - that contribute directly towards financial sustainable municipalities,
 - addressing silo operating models; and
 - to improve the quality of government services and citizen welfare.
3. FMCMM 456 has been designed for municipalities that have achieved a level of compliance with applicable legislation and want to be assessed against best practice.

Levels 4,5 and 6 – These assess for progressive maturity improvements in municipalities (beyond compliance) .

- Level 4: Information level
- Level 5: Management level
- Level 6: Optimisation level

The modules



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FMCM 456 MODULES

Financial Health and Environment

- *Creates the environment to plan, manage and pay for critical public services; invest in infrastructure and finance sustainable borrowing; balance the critical financial and humanitarian interests.*

Efficiency and Sustainability

- *Relates to the maintenance and enhancement of environmental, social and economic resources, in order to meet the needs of current and future generations.*

Public Value

- *Assesses developing a shared understanding of the important values that citizens want to see achieved by and reflected in the operations of the municipality, achieving social outcomes, not just client satisfaction.*

Questions are Level specific and Governance is integral to all modules.

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INFRASTRUCTURE

Infrastructure is the backbone of the economy; the foundation that connects the nations businesses, communities, and people, driving our economy, improving our quality of life, and ensuring our public health and safety. Deteriorating infrastructure impedes the ability to compete in a thriving economy and build for the future.

Urban areas need more than ever to be sustainable and should offer the kind of quality of life and opportunity that make people want to live in.

Municipalities should promote social and economic development, promote a safe and healthy environment, encourage the involvement of communities in the matters of governance.



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WATER

The National Development Plan (NDP) makes reference to the need for vigorous Water Conservation and Water Demand Management (WC/WDM) programmes to ensure that the national and regional water loss reduction targets are met in view of the water scarcity challenges facing the country.

Merely responding to reported leaks and breaks when they surface means that the municipality is not in control of its leakage. The municipality should move from a singular "find and fix" approach to a more comprehensive "predict and prevent" strategy

The municipality should calculate the Water Balance according to the International Water Association (IWA) standard water balance (modified for South Africa) on a 12 month rolling basis, with non-revenue water losses identified and categorized

"When the well is dry, we learn the worth of water" -- Benjamin Franklin --



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KEY CONCEPTS COVERED – RESILIENCE , AGILITY, RESPONSIVENESS, SUSTAINABILITY



Resilient municipalities promote sustainable development, inclusive growth and address the needs of communities (broadly).

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KEY CONCEPTS COVERED – ADDRESSING INNER CITY DECAY AND INVESTMENT OPPORTUNITIES, PPP, INCENTIVES FOR DEVELOPMENT

Transformation

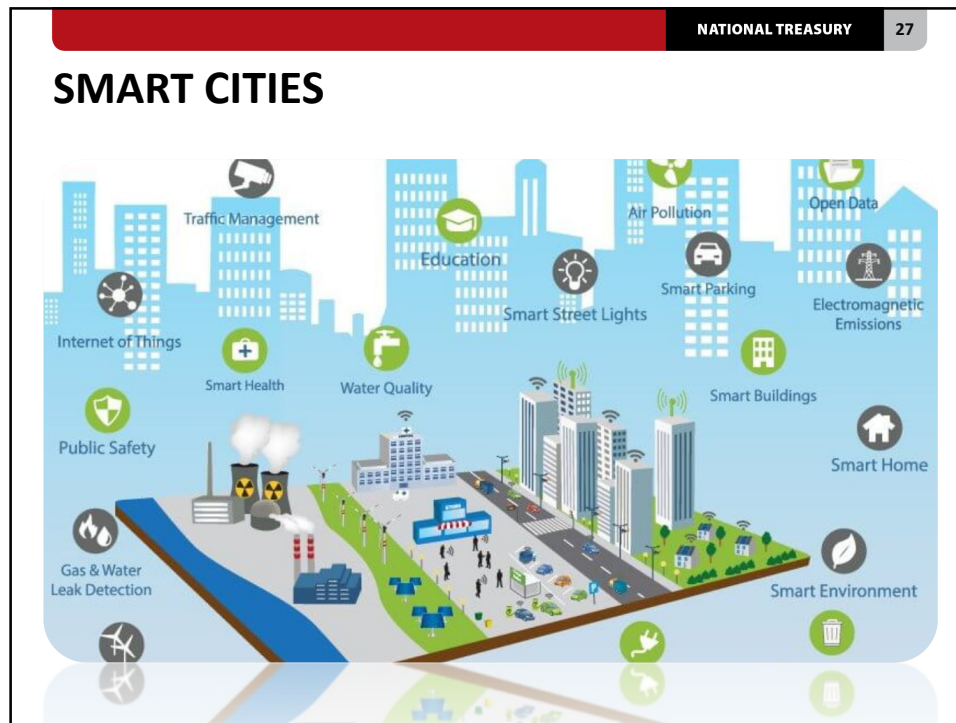
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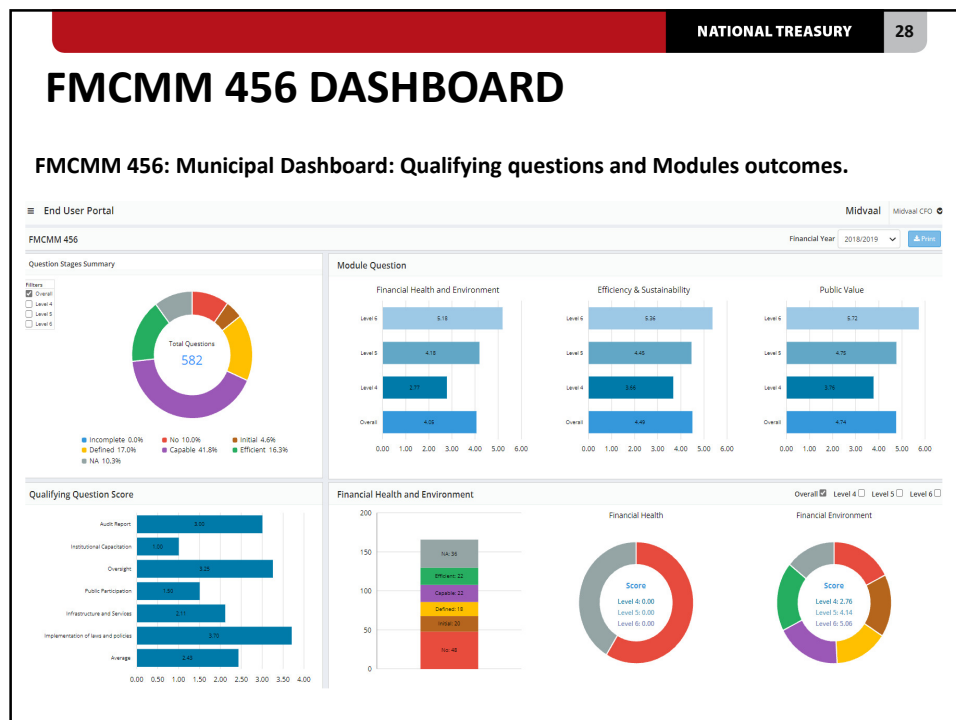
DIGITALISATION AND INNOVATION

Smart Grid

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AUDIT ACTION PLAN

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2019-24 MEDIUM-TERM STRATEGIC FRAMEWORK GOALS

MTSF 2019-24

Government's five-year implementation plan and an integrated monitoring framework

- Includes seven priorities and mechanisms to monitor outcomes, indicators and targets towards the achievement of the priorities

- Priority 1: To build a capable, ethical and developmental state**

Some key outcomes of priority 1

- Improve governance and accountability
- Improve financial management capability in the public sector
- Eliminate wasteful, fruitless and irregular expenditure in the public sector
- Reduction of qualified audits
- Programme to prevent and fight corruption in government


Outcome	Outcome indicator	Baseline	Five-year target
Functional, Efficient and Integrated Government	Percentage elimination of wasteful and fruitless expenditure in public sector institutions	2018 Baseline	100% elimination of wasteful and fruitless expenditure in the public sector institutions incrementally from baseline of 2019 by 2024
	Percentage reduction of irregular expenditure in public sector institutions	2018 Baseline	75% reduction of irregular expenditure in public sector institutions incrementally from baseline of 2019 by 2024
	Reduction of qualified audits in the public sector	2018 Baseline	75% reduction of qualified audits by all public sector institutions in 2024

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KEY AGSA RECOMMENDATIONS AND FINDINGS OVER THE YEARS

The AGSA made a call to leadership **to turn around the decline in local government** by:



1. Setting the tone at the top with **ethical courageous leadership** that is service orientated to provide good governance and accountability.
2. **Capacitating and stabilizing the administration.**
3. Enabling and **insisting on a strong control environment** with practical automated and routinely executed internal controls that prevents financial loss, wastage and transgressions to improve financial performance management and reporting.
4. Implementing **consistent , appropriate and swift consequences** for accountability failures.

➤ **The need for improving on timely submission of credible audit action plans for review.**

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TAKE UP THE CHALLENGE – WHERE WILL YOU BE IN 3 YEARS TIME?



AMBITIONS: BIG AND SMALL

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BENEFITS OF WEB-ENABLED AAP



- **Uniform** content and format.
- Saves **time** and **streamlines** the process.
- Improved **accountability**.
- Ensures that the AAP is based on **SMART principles**.
- Multiple tiered **quality reviews** by CFO, IA, AC, PT, NT.
- **Prevents recurring findings** by ensuring that root causes are addressed.
- **Real time tracking** of progress in addressing audit findings.
- **Improved monitoring** by oversight bodies.
- NT and PT are able to **better support** municipalities through understanding municipal, provincial and national specific issues.



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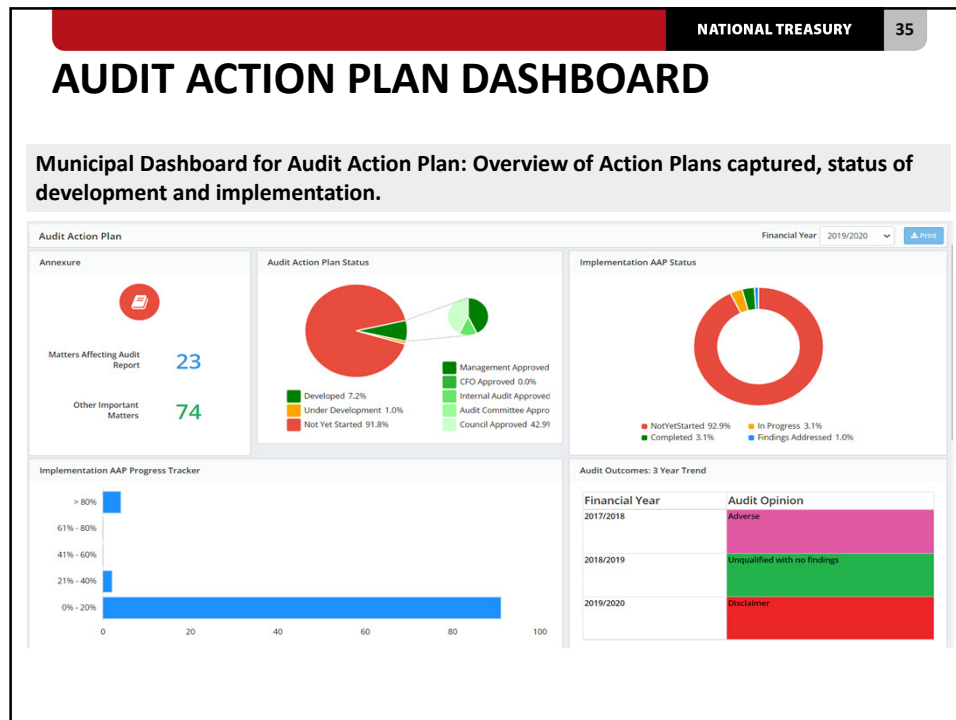
WEB-ENABLED AAP

...serves to address the gaps identified through the audit process.

- An efficient way for municipalities to devise a plan for **improved financial management** and improved service delivery.
- AAP is created by an Audit Champion and an **approval process** by Management, CFO, Internal Auditor, Audit Committee and Council is **embedded** in the system.
- Provision is made for **National and Provincial comments and recommendations on the AAP**.
- Once Implementation progress is 100%, Internal Audit will review. **Internal Audit confirmation that the findings have been addressed, is required** for the Action plan to be complete.
- The AAP **Dashboard** shows the number of audit findings on the AAP affecting the Audit Report and Management Report. The AAP status of development and the implementation status in terms of findings addressed, in-progress and not yet started. (**Implementation progress tracker**).



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DETAILED TRACKING

Audit Action Plans + Add Action Plan

Summary Matters Affecting Audit Report Other Important Matters

Audit Opinion: Qualified Financial Year: 2016/2017

Audit Action Plan Status: All Implementation Status: Not Yet Started In Progress Completed Agreed Findings Addressed

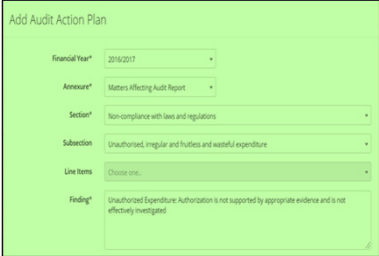
Date Created: dd MM yyyy Due Date From: dd MM yyyy Due Date Till: dd MM yyyy Filter Download

Reference	Section	Subsection	Line Item	Finding	Remedial Action Taken	Action Plan Status	Repeat Finding	Progress	Implementation Status	Responsible Person	Due Date	Completed Date	Action
AAP139-2017	Non-compl...	Contract m...	Contracts	Regulation...	null	Not Yet Started	Yes	0%	Not Yet Started				+ x
AAP140-2017	Misstateme...	Revenue fr...	Rev from e...	Prepaid e...	null	Not Yet Started	No	0%	Not Yet Started	Director Financial Reporting			+ x
AAP141-2017	Misstateme...	Long term ...	Retirement...	ISS.110-Is...	Item on Po...	Developed (Council Approved)	No	99%	In Progress	Expenditure Manager	30 Jun 2021	10 May 2021	+
AAP152-2017	Non-compl...	Unauthoris...		ISS.34 COM...	null	Not Yet Started	Yes	0%	Not Yet Started	Midvaal CFO	31 Aug 2021		+ x

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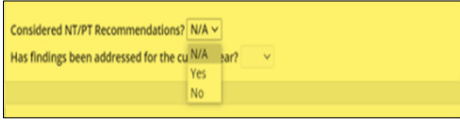
USER FRIENDLY & SMART




- Alignment** with AGSA audit and management reports.
- Copy and paste** functionality.
- Dropdown menus** for easy and accurate selection.
- Recurring findings** are identified for special attention.
- Accountability** is ensured by allocating tasks to specific individuals.
- Built in approvals** by Management, CFO, Internal audit.

- Allows for **comments at various stages**.
- Audit trail enabled**.
- Consideration of NT/PT recommendations** is required.







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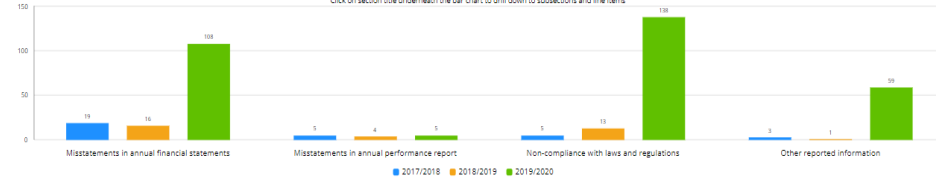
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AUDIT ACTION PLAN DASHBOARD

Municipal portal: Summary of number of repeat findings by section and by amount.

No. of findings by sections Overall

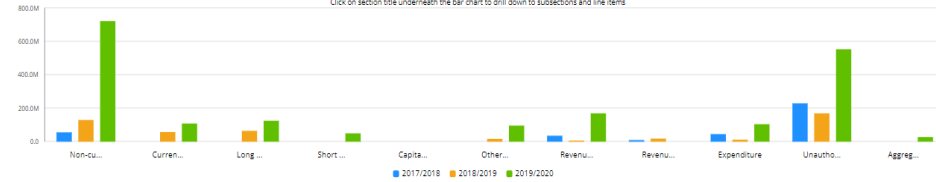
Click on section title underneath the bar chart to drill down to subsections and line items.



Section	2017/2018	2018/2019	2019/2020
Misstatements in annual financial statements	19	16	108
Misstatements in annual performance report	5	4	5
Non-compliance with laws and regulations	5	10	138
Other reported information	3	1	59

Total amounts per finding by Section (amounts in R millions) - Misstatements in annual financial statements Repeat

Click on section title underneath the bar chart to drill down to subsections and line items.



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NEXT STEPS

- Consolidate inputs from system piloting and incorporate into web-enabled system;
- Conduct train-the-trainer sessions with PTs across all provinces;
- Training of municipalities planned from January 2022;
- Phased-in approach:
 - Expected go-live date for the Financial Indicators and Audit Action Plan system- is immediately after the 2020/21 audit; and
 - The FMCMM Circular will provide guidance on the timeframes for completing the FMCMM 123 & 456 modules.

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CONTACT

All enquiries to be submitted to FMCMM_Audit Action Plan
helpdesk

Email: fmcmm.aap@treasury.gov.za

Mark subject email -

Name of Municipality : FMCMM_Audit Action Plan

Municipalities & Municipal entities are also encouraged to
make use of the Helpdesk function in the system: User
manuals, Ticket logs & FAQs

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